REPORT OF THE

BUSINESS DEVELOPMENT CENTRE FUNDING STRUCTURE REVIEW

COMMUNITY FUTURES PROGRAM

Canadian Jobs Strategy Policy
Community Futures Policy Directorate
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VOLUME I IS PROTECTED

REPORT OF THE

BUSINESS DEVELOPMENT CENTRE FUNDING STRUCTURE REVIEW

COMMUNITY FUTURES PROGRAM

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COMMUNITY FUTURES PROGRAM

Executive Summary

Background

EIC is achieving considerable success and positive visibility through the Community Futures Program. It is active in 202 selected areas (made up of several times that number of small economically threatened communities) across Canada. The Business Development Centre is a key element of the Program along with the Community Futures Committee. Business Development Centres produce jobs at low cost, draw significant local resources into joint endeavours and cooperative action with government to stabilize and expand the local private sector.

Issue

Based on current selections, there is a potential for up to 231 Business Development Centres, including 29 "freestanding" centres in areas not selected for Community Futures.

Based upon existing authority, financial support for Business Development Centres is limited to five years. Experience with previous similar initiatives, as described by the Auditor General and Strategic Policy and Planning evaluation, reinforces the conclusion of this review that without provisions for longer term support, Business Development Centres will not survive.

Yet Business Development Centres are productive, cost efficient and have other valuable impacts.

If the Business Development Centre structure fails, Community Futures Program and EIC will lose its effectiveness and credibility as an agent of local development and adjustment.

Conclusion

The review proposes that modifications to the Business Development Centres' support structure be considered within the context of Community Futures rather than in isolation.

The review recommends (1) a number of relatively minor changes to the current funding structure which will facilitate the operation of Business Development Centres toward their mandates and increase their potential for longer term self-support and (2) a longer term support structure which will retain the employment expansion and other desirable impacts of productive Business Development Centres, (3) reinforce the status of the Business Development Centre within its Community Futures context of strategic planning and representation of the community. The review also recommends that freestanding Business Development Centres be included in the provisions of the proposed support structure.

Costs

The costs of longer term support are substantially less than the equivalent costs of the initial five-year support structure. The short term structure requirements may add minimally to the budget ceiling for fiscal year 1989-90, but in following years, they will be offset by the reduced cost of maintaining BDCs moving into the "second generation" of support.

Labour Force Development Strategy (LFDS) Implications

Though the review was undertaken prior to the publication of the Labour Force Development Strategy (LFDS), the conclusions and recommendations presented herein complement the directions laid out in the LFDS and strengthen Community Futures' and the Business Development Centres' capacity to play a strategic role in community adjustment.

Recommendations

A. General Recommendations

1. Sunset Clause

Community Futures generally and the Business Development Centre specifically meet long term needs; and the sunset clauses on community selection (six years) and on the Business Development Centre (five years) should be maintained, NOT as a date for termination, but as a bench mark date for fundamental review - re-evaluation, adjustment and as a decision point for continuation or withdrawal of EIC support.

2. Community Futures Content for Continuing Support

Longer term funding support decisions for Business Development Centres should be based on a renewal of the Community Futures selection and be the result of a fundamental review of the selection, the operation of the Community Futures Committee and the Business Development Centre option and be conditional upon a proposal from the community partnership, (i.e., the Community Futures Committee or Business Development Centre endorsed by the Community Futures Committee) that demonstrates

- maintenance of Community Futures principles
- assessed Business Development Centre productivity
- acceptable productivity and cost efficiency targets
- consistency with the regional program strategy and norms as well as budgets.

3. Freestanding Business Development Centres

Freestanding Business Development Centres should be included in the provisions of this review subject to the same conditions as Centres in selected areas, conditional upon:

(a) Productivity Assessment

(b) Demonstration of Community Futures principles

(c) Consistency with the regional program strategy, norms and budgets.

4. Structures of Future Support

A continuation of Community Futures into a "second generation" places greater weight on the maintenance of Community Futures principles and allows increased flexibility on the part of the community to propose an organizational structure, in support of these principles, that is appropriate to the community.

5. Short Term Structure Recommendations

The recommendations on short term support stand alone and require redress independent of the recommendations concerning longer term support. These recommended changes are required immediately.

B. Specific Recommendations

B.1 Short Term Support Structure

1. Contribution Fund

The funding structure for Business Development Centres over the period of selection should be adjusted to allow a maximum contribution of $150,000 per year to a maximum overall of $750,000 over five years.

2. Exceptional Authority

The Minister should have authority to exceed the existing and proposed limits (grants and contributions) where exceptional need and opportunity for local development are demonstrated and when all conditions for continuing support are met.

3. Loan Fund: "Cumulative" Limit of $75,000

The "cumulative" limit of $75,000 in loans to any one business should be removed.

4. Loan Fund - Exception to $75,000 Limit

In exceptional circumstances, where business maintenance, employment maintenance and/or protection of investment warrant(s), and with prior authorization from EIC, Business Development Centres can exceed the $75,000 loan limit.

5. Loan Guarantees

Business Development Centres should be permitted to receive grant amounts toward loan guarantees when the regular lender requires a deposit of assurance.

6. Supplemental Travel Cost in Northern Centres

Business Development Centres in areas defined as NORTHERN as per the CJS Relocation and Travel Assistance option should be eligible for up to $100,000 in additional contribution funds to cover supplemental costs of travel.

7. Confirmation of Loan Refusal

The onus should be placed on Business Development Centres to confirm with the Federal Business Development Bank (FBDB) that the request for financing was, or would be refused, and to document the client file for compliance purposes.

8. Earnings

Earnings should be defined as net earnings.

9. Equity

Exceptional authority of the Minister should be sought to increase the loan fund, or specific equity proposals should be responded to through the Community Initiatives Fund with the Business Development Centre/Community Futures Committee acting as the investment agent. This would occur only when the following conditions are met:

(1) the need for and opportunity for equity investment is in excess of what is reasonably possible through the current loan fund and (2) the employment generation potential is consistent with loan fund norms and (3) other conditions, as for Business Development Centres continued funding, are met and (4) funds are available.

10. Debt Collection Costs

When responsible debt collection action would be restricted due to limitations on the Centre's operational funds, regional program officials may authorize that debt collection costs be charged to the investment fund.

11. Selection and Option Duration

The wording of ED Manual, Chapter 6.06(6) should be revised to reflect that:

1) the selection is for six years,
2) the duration commences with the signed agreement with the Committee,
3) the options (not Community Futures Committees) may normally operate for up to five years within the selection period,
   and
4) when a selection is not renewed, a reasonable time and appropriate funds can be provided to permit orderly wind-down.

12. Acquisition of Assets

Business Development Centers should retain their current mandate and the investment fund contribution should continue to be used within its current scope of loans, loan guarantees and equity investment. Business Development Centres should be permitted to acquire real property for their own purposes as an alternative to renting or leasing, when the cost is equivalent or less and particularly when self-sufficiency is reasonably expected. The acquisition of property beyond a centre's own needs should not be permitted.

13. Amendments

Regions should be delegated to authorize amendments up to 10 percent of the annual grant agreement and up to 25 percent of the annual contribution agreement.

14. Regional Associations

A provision for delivery assistance of up to $100,000 annually for each region and national headquarters should be incorporated into Community Futures so that regional associations of Community Futures Committees or Business Development Centres, individual Community Futures Committees or Business Development Centres or other suitable resources can be funded to analyse, track, study, pilot or otherwise be contracted with for activity relevant to program analysis, research or development.

B.2 Long Term Support Structure

Any consideration of longer term support for Business Development Centres should be based upon the continuity of its operation in a Community Futures context.

1. Regional Strategy

Regional strategies should be established that include the following elements:

(a) Regionally established goals concerning:
- targeting of the option,
- results to be achieved,
- application of employment equity principles to the program;

(b) measures to be used to establish the need;

(c) measures to be used and the framework for establishing acceptable levels of performance;

(d) expectations and range of acceptable activity to be included in the community plan; and

(e) the regional budget for 12 months and a five year projection.

2. Community Futures Philosophy

Different organizational structures should be accepted as custodian of the strategic plan as long as the characteristics of Community Futures are maintained.

3. Continued Support

The second generation should have a limited time frame of five years. The second generation should provide support of up to $150,000 per year to a total of $750,000. The Business Development Centre mandate should remain as currently defined including the recommendations made in the framework of the short term funding regime.

Centres may requst the grant of $1,550,000 to the investment fund into the second generation where the total grant has not yet been absorbed during the first generation.

4. Funding Model For Second Generation Business Development Centres

A cashflow-based funding model should be adopted as per the following formula:

- Sources of cash:
  - Returned Principal $_____
  - Investment Income _____
  - Service Income _____
  - Contributions from other sources _____

  Total Cash In $_____

- Uses of Cash:
  - Investment Budget $_____
  - Operating Budget _____

  Total Cash Out $_____

- Cashflow Deficit (surplus) $_____

- Funding Requirement $_____

B.3 Goals and Measures

1. Initial Norms

Regional norms should be established for the productivity of Business Development Centres based upon the sum of the number of jobs created and maintained as reported by Business Development Centres over the period April 1988 to December 1988 divided by the cost to Canada, both contribution and grants (obtained from EIIS).

2. Data Collection and Norms Setting Process

The data collection tool established by the review should be implemented effective the first quarter of fiscal year 1989-90. At the end of 1989-90, data obtained from the data collection tool will be used to set a firm product cost to EIC, to be updated annually.

3. Quality of Service

Formal evaluations and specifically a survey of Business Development Centre clients to measure quality of service should be considered and if it is feasible, implemented in 1989-90.

B.4 Wind-down

1. Guidelines for Agreement Expiration

Improved guidelines should be developed relative to the procedures to follow when the terms of a Business Development Centre contract are about to expire.

2. Default Clause

Default clauses should replace the current termination clauses in Business Development Centre agreements in order to preserve Canada's right to direct the disposition of assets in the case of termination of funding.

3. Disposition of Assets

A standard clause applicable to all regions should be developed covering the disposition of assets should a Business Development Centre be dissolved.

4. Dissolution or Amalgamation

National guidelines should be developed and regions should have access to up to $10,000 per transfer to ensure that all legal and audit costs are assumed should the Business Development Centre be insolvent. When a Business Development Centre is dissolved and another Business Development Centre is expected to receive the assets and provide service to the area, the assets should be deemed to be transferred from one legally incorporated body at arms length from Canada to another, and the receiving Business Development Centre may still receive up to the program maxima to meet its mandate.

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BUSINESS DEVELOPMENT CENTRE FUNDING STRUCTURE REVIEW

COMMUNITY FUTURES PROGRAM

I Introduction

The entire thrust of Community Futures is to promote and support the involvement of the key resources and affected interests in threatened communities with government to assess their needs and opportunities, strategically plan for realistic development and adjustment and implement the plan.

The design of the Business Development Centre option, key to the process, exhibits a number of anomalies and inconsistencies which thwart the capacity of communities to plan for the roles and functions which the centre performs in the development and adjustment process.

This report is the result of a review undertaken to identify and provide acceptable resolutions to these difficulties. The review is part of an ongoing sequence of policy reviews to respond to the increasing sophistication of Community Futures Committees and Business Development Centre Boards and staff, and the growing recognition by program administrators and community stakeholders that the Community Futures Program is having a significant and increasing impact on community economic development across small town and rural Canada.

The review was conducted under the management of a small Steering Committee of National Headquarters and Regional Program Managers. The Project Team was composed of National Headquarters Canadian Jobs Strategy staff augmented

by a regional specialist. A working group of regional office representatives distilled the guidance of the Steering Committee, the project team analysis, and consultation results into a set of proposed recommendations for change.

As an integral element of the project, Community Futures Committees and Business Development Centre Boards and staff representatives from each province were consulted. Whether through one-on-one consultations, group presentations or participation in regional association meetings, over half of the Business Development Centre Board Chairpersons or Managers were consulted in the course of the review. In addition, an in-depth survey of nineteen Business Development Centres was conducted to obtain base line data and projections upon which major issues could be measured.

Although the project could not involve community-based practitioners as full partners in the review, the major issues, key options and recommended solutions respond to the general views of the vast majority.

The consultation was limited by virtue of time, resources and structures. Nevertheless, the project has set new levels of partnership expectation and demonstrated a degree of responsibility, commitment and support by our community partners to program development commensurate with the strength of their community input.

Although our local partners and public have been quick and constant to note our failures, inadequacies and inconsistencies, the Canada-wide consultation process has confirmed that our partners at the community level recognize that EIC remains in the community, "takes its licks" and gets on with the job.

No other agency or department in the Federal government has the history, networks, credibility and constancy to retain, let alone improve upon, the processes that are inherent in Community Futures Program and its Business Development Centre Option.

II The Issue

This review responds to the question of whether the current funding structure for the Business Development Centre option of Community Futures is appropriate to achieve Business Development Centres objectives and the expectations of EIC.

This report concludes that the current funding support structure has some major inconsistencies with the policy objectives of the Business Development Centre which militate against the achievement of objectives. It also concludes that Business Development Centres are productive and cost efficient institutions. It recommends a number of changes to the current structure and that a regime of continuing support be made available to the Centres that meet Community Futures objectives in a productive and cost efficient manner.

III Community Futures

A. Background

The Community Futures Program was introduced in 1986 as an element of the Canadian Jobs Strategy. Whereas other elements of the Canadian Jobs Strategy focus on individuals or groups, the Community Futures client is a community (or set of communities) comprising a labour market area. The program is directed towards non-metropolitan and smaller communities in crisis, communities with serious, often long term employment problems resulting from a serious lack of employment generating economic activity and diversity.

The Community Futures Program allows Employment and Immigration Canada to support and participate in a local process of development and adjustment in communities where both the adjustment needs of the workers and the economic future of the community are at stake.

Community Futures provides specific types of assistance to selected communities conditional upon their meeting valid developmental expectations.

The Program provides financial and technical support for the establishment of a locally based capacity for development and adjustment, the Community Futures Committee. The Committees must be representative of the local development actors and resources as well as being representative of the affected interests in the community. The Committee is expected: to assess local adjustment and developmental needs and opportunities and to provide

a strategic plan for the community; to constitute the custodian of the plan, assuring its continued relevance; and, to recommend, guide, direct, monitor, negotiate or mediate, as appropriate, specific activities in implementing the strategic plan.

Although the development and adjustment needs of communities go beyond the mandate of any single organization or agency, EIC makes available a number of specific "options" under the program in addition to regular programs and services. These options may be accessed through approval by the Minister of recommendations made by the Committee as presented in the strategic plan.

These "options" are: (1)

(a) Business Development Centre,

(d) Self-Employment Incentive,

(b) Purchase of Training,

(c) Relocation and Travel Assistance,

(e) Community Initiatives Fund.

Although EIC, through the program, frequently stimulates the initiation of the local process of development, it does not constitute the process. Its primary goal is to support a local capacity to undertake economic development, make specific contributions to the process which are primarily but not exclusively relevant to the human resource dimension of development and assist communities in achieving a broad approach to required development and adjustment.

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(1) Annex I provides in capsule form a description of each of the Community Futures Options.

This review focused on the Business Development Centre option and the appropriateness of the funding structure relative to its objectives, history and achievements in the Community Futures context.

B. Scope

Communities (or sets of communities) are selected on the basis of severity of unemployment and prioritized on the basis of need and of assessed capacity to affect the level of economic activity through concerted action of the community resources and the availability of Canadian Jobs Strategy (CJS) and specifically Community Futures funding to support the process.

The "selection" is for a period of six years and, therefore, the commitment of both budgetary and human resources is significant.

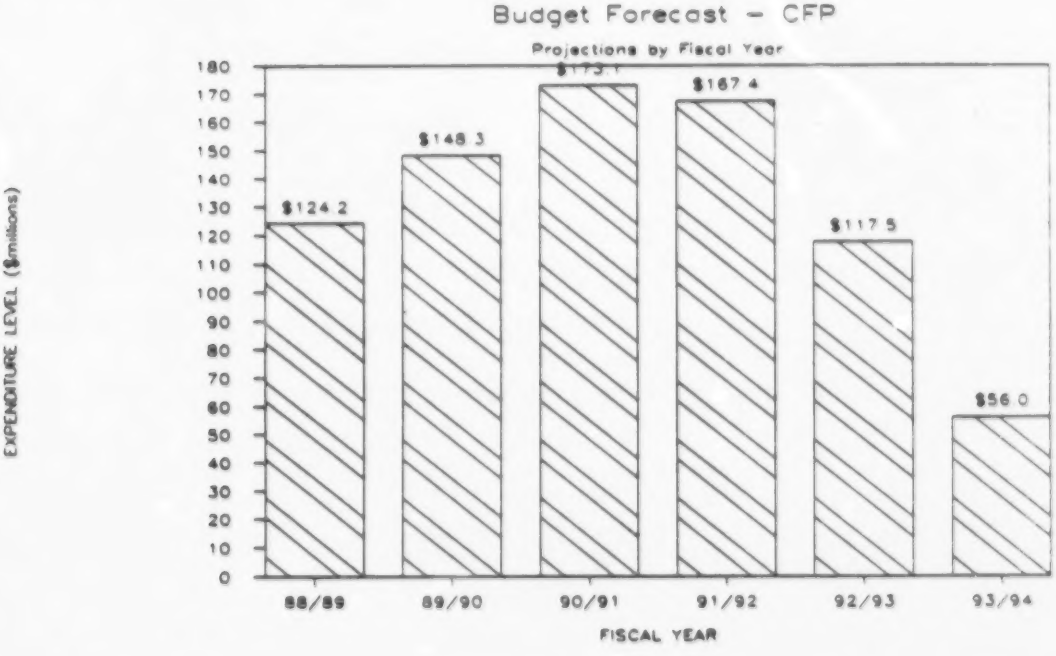
The original planned scope of activity was to reach 200 to 250 selected communities and $150 million in annual program expenditures. As of

Community Futures Selected Areas
by Region and National Total

Region	Number of Selected Areas
Newfoundland	13
Nova Scotia	9
Prince Edward Island	2
New Brunswick	8
Quebec	50
Ontario	48
Manitoba	11
Saskatchewan	8
Alberta/N.W.T.	24
British Columbia/Yukon	29
TOTAL	202

March 31, 1989, after three years of program operation, the number of selected areas has reached 202.

The expenditure forecast for fiscal year 1988-89 was close to $125 million. The forecast for fiscal year 1989-90 is for $148.0 million, well within the planning figure approved by Cabinet. Based upon maintenance of the current level of selections as a maximum, it is forecasted that the expenditure requirements for the key elements of program options will peak at near $173 million in fiscal year 1990-91 (2). Within current policy limits, expenditure will subsequently begin to fall allowing an opportunity for policy changes to capitalize upon the labour market strategy advantages of the program, replace discontinued selections and deepen the impacts of the program.



(2) Including the Community Initiatives Fund.
See Annex VIII for the BDC projected budget levels.

Current authorities limit the duration of community selection, and thus, the Community Futures Committee is limited to six years. The options (Business Development Centres, Self-Employment Incentive, Community Initiatives Fund, Training and Relocation) can operate for up to a five-year period.

IV The Business Development Centre

The Business Development Centre is, along with the Community Futures Committee, key to the effective implementation of the Community Futures process in the selected area. It provides direct support to the expansion and stabilization of small business in the community. Through its provision of business technical services and the management of a small investment fund, the centre contributes to the creation of additional employment opportunities in new or expanded small businesses and to the maintenance of employment opportunities in threatened businesses.

The typical Business Development Centre is staffed by a manager, a business analyst and a support person. Direction is provided by a volunteer Board of Directors drawn primarily from the local business and financial community(3). The Board is represented on the Community Futures Committee, thereby contributing to the strategic plan for the selected area and drawing from the committee the general guidance required to establish specific goals and priorities for the relatively independent operation of the Business Development Centre in the selected area.

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(3) Appendix 1 to Annex I is a report of a survey done by CJS Operations on the make-up of Business Development Centre Boards and staff.

One hundred and sixty-seven (167) Business Development Centres are operating at the time of writing this report. One hundred and thirty-eight (138) of these centres operate in selected areas, and it is anticipated that most selected areas will elect for the Business Development Centre option. There are twenty-nine (29) Business Development Centres operating in areas not selected for Community Futures. These centres, called "freestanding" were previously LEAD Corporations, under the Local Employment Assistance and Development Program. These freestanding centres continue to receive support because of commitments made by EIC as part of the transition into the new program. Based upon the current level of selections as a maximum, there is a potential for two hundred and thirty-one (231) Business Development Centres.

Local Employment Development Assistance (LEDA) and LEAD Corporations, predecessor initiatives to the Business Development Centre, had a mandate to support the creation of employment opportunities in communities experiencing high unemployment and low levels of economic activity through the creation and expansion of small business. Each had an investment fund capacity primarily for loan purposes and a technical, advisory service mandate to promote business, entepreneurism and strengthened management and productivity in small businesses.

LEDA, an experimental program introduced in 1981, had a three-year funding support limit. LEAD, which was introduced in 1983, replaced LEDA and had a five-year funding support term that recognized the potential for longer term support (4). The Business Development Centre alsc provides for up to

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(4) LEAD Corporation criteria allowed for EIC to extend support for LEAD Corporations beyond 5 years where the Corporation had not utilized its full authority for $2.11 million and where the Corporation was proceeding to a "break even" point. "Breakeven" was defined as independence from EIC support. Though not widely known, Treasury Board approval of the LEAD Terms and Conditions, however, specified that approval beyond the $2.11 million was flexible subject to Minister's recommendation and Treasury Board approval. (LEAD Operational Guide IV-26).

five years of support but in its design stage retreated from the principle of ongoing support that was incorporated into LEAD Corporations. Of the 167 operative Business Development Centres, 110 were formerly LEAD Corporations. The thirteen LEDA Corporations initiated under that program were eventually "rolled over" into LEAD and subsequently became Business Development Centres.

Cabinet approval of the Business Development Centre option within Community Futures recognized its roots in the previous program's LEAD Corporations.

Comparison of the Funding Structure Maxima for

LEAD Corporations and Business Development Centres

	LEAD Corporations 1983-86 $000		Business Development Centre 1986 - $000	
Planning				
	Project $100/12 month		Community Futures Committee Strategic Plan	
Grants				
Year 1	$ 220		$ 250	
Year 2	220		250	
Year 3	220		(	
Year 4	350		(1,050 over 3 years	
Year 5	350		(	
Total	$ 1,360		$ 1,550	
Contributions				
Year 1	$ 130		$ 150	
Year 2	130		150	
Year 3	130		150	
Year 4	180		110	
Year 5	180		75	
Total	$ 750		$ 635	
TOTAL		$2,110		$2,185

Therefore, the basic structure of the Business Development Centre and the LEAD Corporation is similar. The major differences are the finite term of support and the positioning of the Business Development Centre within a more global community process governed by the Community Futures Committee with its strategic planning and implementation role.

A. Business Development Centre Productivity

While Business Development Centres (and LEAD Corporations before them) are subject to annual review and submit complete reports and plans, one of the major program deficiencies of both LEAD and Community Futures to date is the paucity of comparable productivity data to document effectiveness at the national level. LEAD data available is minimal and relatively inconsistent. Until April 1988, virtually no aggregate Business Development Centre data were available(5). The primary source for productivity data on LEAD Corporations is a 1986 program evaluation conducted by Strategic Policy and Planning (EIC). In addition, some limited program data accessed through local files were also used for comparative purposes.

In April 1988, a quarterly profile report of Business Development Centre loan fund activity was instituted and provided three full quarters of productivity data on that aspect of service for the review.

In addition, a survey of 19 Business Development Centres across the country was conducted between January and March 1989, as an integral element of this

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(5) This failing is not restricted to these programs. It was recently pointed out by a representative of the Economic Council of Canada, heading up a review of regional/local economic development that this is, unfortunately, a characteristic of development to date. The OECD is now focusing its second term work plan on evaluation and information dissemination.

review, to develop productivity data for a twelve-month period of centre operation and to forecast productivity and costs for the selected centres for a period of five years beyond the current funding support mandate.

Productivity data indicate that Business Development Centres are effective and cost-efficient instruments of small business development and adjustment – directly in new employment creation through business creation and expansion and maintenance of jobs in threatened enterprises, and indirectly through the support of entrepreneurism and the promotion of private sector stabilization and expansion. Businesses and emergent entrepreneurs receiving investment fund support would not otherwise have had equivalent access to the financial support from a regular financial institution. Business Development Centres incorporate other features which contribute to their effectiveness and acceptance in depressed and threatened communities. Centre Boards of Directors and staff are recruited from local resources and are instruments of a locally based process of development and are accountable to the community. They represent community business resources in partnership with government in promoting, supporting, and developing additional and strengthened enterprise in the community.

The data also indicate that the Business Development Centre is on average smaller and marginally more productive than the former LEAD Corporation in spite of a financial support level almost identical to levels established in 1983(6).

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(6) See chart, page 10, and Annex II for a brief comparison of LEAD Corporation and Business Development Centre data.

B. Some data highlights[7]

- The average Business Development Centre receives $418,000 per year from EIC ($146,000 in contribution funds towards operating costs and $272,000 in grant funds to the loan fund).

- The average centre is annually directly involved in the creation or maintenance of 99 jobs in community-based, small enterprises through investment fund activity[8].

- The average cost to Canada for a new job created or a threatened job maintained is $4,200.

- The average centre will make 21 investment transactions annually at an average of $21,838[9] for a total investment of $459,000, (88% of these transactions are loans, 1% loan guarantees and 11% equity participation).

- In addition, each centre, through its technical service, will assist an additional 20 businesses to start, expand or survive and this effects additional jobs[10].

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(7) Source: EIIS, BDC quarterly reports.

(8) This figure does not include Self-Employment Incentive clients who start new businesses with Centre support - estimated at 1,700 in 1989-90.

(9) The LEAD average was $19,403.

(10) These jobs are not currently counted. Assuming the job averages of new enterprises started are similar to entreprises which are clients of investment fund activity, the number of new employment opportunities created, or threatened jobs maintained, would be similar to the investment fund results.

- The average centre annually serves an additional 291 businesses or potential entrepreneurial clients.

- Business Development Centres spend an average of 25 hours helping each Self-Employment Incentive client get their new businesses started and providing on-going support throughout the critical phase(8).

- As centres begin to reinvest principal and interest, and particularly as they reach the maximum of their loan fund, the actual cost per job to Canada reduces dramatically.

- Based on 230 Business Development Centres operating over a full year,
  - 22,770 new jobs will be created and threatened jobs maintained as a direct result of Centre investment activity;
  - 4,600 additional businesses will be assisted to start, expand or survive (this would be equivalent to an additional job creation impact equal to loan-assisted jobs);
  - some 67,000 additional businesses or potential business clients will be served.

C. Conclusions

The Business Development Centre provides support for the creation, stabilization and expansion of employment opportunities through the creation, expansion or maintenance of local small businesses and in addition

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(8) This figure does not include Self-Employment Incentive clients who start new businesses with centre support - estimated at 1,700 in 1989-90.

supporting the local private sector. The centre can provide loans, loan guarantees and equity investment to small businesses; it provides business technical assistance to existing and new entrepreneurs; it promotes entrepreneurism and improved business management in the selected area.

Through direct support to the community and through their role in the Community Futures Committee process, the Business Development Centre Boards and staff constitute the major business development, stabilization and adjustment resource of Community Futures.

The role of Business Development Centres in employment and enterprise development is cost effective and productive. These impacts occur in small town and rural Canada and the centres themselves constitute an improved capacity for development and adjustment which remains within the community.

V The Problem

Development and adjustment, particularly in areas of deep rooted, long term structural difficulty, is a long term process. The design of the Community Futures Committee and the Business Development Centre recognizes this requirement, yet in some respects contradicts it particularly in terms of the time limits on EIC support.

The development of a community-managed investment fund through grants, with ongoing reinvestment of principal and interest along with the concomitant counselling, development and other technical support for existing and new

entrepreneurs, constitutes the establishment of a permanent institution. Even though the results, as outlined, constitute value for annual support, EIC must also recognize that it is involved in institution building and must address itself to the implications of permanency. The time limit on support implies clearly that "success" will be defined by the capacity of the centre to survive EIC funding limits by achieving revenues (interest and/or fees) sufficient to cover costs, and/or finding alternate, substitute partners to EIC.

The time limit also implies that the support structure provided over the allowable duration was sufficient to allow productive centres to achieve the conditions for self-sufficiency. None of these principles has passed the test of assessment or experience.

A. Retention of the Current Support Structure

Current authority allows for grants up to a maximum $1.55 million to constitute an investment fund, and up to $635,000 contributed to the overhead costs of the Business Development Centre over five years.

This regime is similar in dollar value and principles to the policy and authority framework of LEAD Corporations (See Table, page 10).

In 1986, a review of LEAD Corporations by the Auditor General pointed out that 8 of 18 LEAD Corporations reviewed had been supported by the

predecessor program (LEDA) and continued to receive support in 1986 as LEAD Corporations. Seven of the eighteen had reached their fifth year of operation and, it was concluded, would have difficulty surviving without EIC support. An evaluation of LEAD conducted by Strategic Policy and Planning, again in 1986, surveyed 17 corporations and found that only five expected to become "self-sufficient". The evaluation model concluded that self-sufficiency was not a realistic goal for any of the corporations.

The current review which included an indepth survey of 19 Business Development Centres found that only 3, or 16 percent, projected self-sufficiency under current conditions.

Program officials frequently suggest that the "self-sufficiency" policy, upon which the current structure is predicted, encourages frugal management and productive services (towards a revenue base). Some Business Development Centre Boards and managers share this view. The vast majority contend, however, that frugal management and effective services are primarily a function of their community accountability, internal professionalism and EIC expectations and do not derive from a fictional and even counter-productive goal of self-sufficiency. Many Business Development Centre representatives maintain that the emphasis on self-sufficiency is unrealistic and tends to push centres to abandon their mandate and to become small imitations of commercial lenders.

The current funding support structure, therefore, will lead inevitably to:

- conclusions that Business Development Centres are "not successful" because they do not achieve "self-sufficiency". The productivity and cost-efficiency of the Centres, however, confirm that they are extremely successful;

- the demise of the Centres - some will survive for a time while drawing down their loan fund assets to cover costs; others will simply dissolve; others will be picked up by provinces or territories as a means of providing inexpensive job creation.

B. Conclusions

Success is based on effective service relative to EIC expectations and standards and to the community/area needs, not on "survivability" based on revenue generation. Alternate or substitute funders to EIC have not emerged in the past. Moreover, this view fails to recognize the substantive ongoing partnership and contributions of volunteer Boards of Directors, other local organizations and agencies that are involved in supporting Business Development Centres activities and in joint ventures. The impacts of EIC contribution are magnified through the increased value of partnerships rather than by substituting for the EIC presence.

The expectation of alternate funding also assumes that the labour market resource to the community, which is EIC-based as a federal institution, has

a time limit. The duration should be more properly defined by the need and productivity of the service relative to the need and availability of funds rather than by arbitrary time frames.

Retention of the existing support structure with its current limits will constitute a continuation of an inconsistent policy framework. It will also result in the loss of the Business Development Centre to the community and, in fact, the termination of Community Futures and the retreat by EIC as a credible partner in local development and adjustment.

Provision of continuing support only to those Business Development Centres which have demonstrated potential for self-sufficiency or which are heading for "break-even" also fails to meet reasonable policy considerations:

- Based upon LEDA and LEAD, only a very small percentage will achieve self-sufficiency.

- Based upon Business Development Centre estimates of the cost of self-sufficiency(11), the short term cost would be annually higher than continued support and less controllable.

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(11) Some Business Development Centres project self-sufficiency at the point where their investment fund reaches $3.5 to $4.0 million and presupposes a considerable portion of these funds invested, not in jobs/enterprise creation but in interest bearing savings and investments.

- The negative service and public relations impact of dropping 85 to 90 percent of Business Development Centres would be unacceptable.

- Furthermore, the reliability of assessments of the 10 to 15 percent projected to be "viable" would be hardly verifiable.

- Business Development Centres most likely to be self-sufficient would in many cases be those which have the highest interest rates, the least risk in loans, least counselling and other developmental support to non-loan clients and the highest ability of clients to pay for technical services, in other words the Business Development Centres least needed and farthest from the intended mandate.

Assuming that the current support structure cannot be rationalized by policy review, past program history and current program experience, is there an acceptable option or set of options which are financially responsible and consistent with overall program policy and authority?

The review presents a number of general policy recommendations which are consistent with program principles. It also establishes a context for a series of specific policy changes which will more realistically motivate Business Development Centres toward independence of EIC funding while retaining cooperative and partnership links. More importantly, the proposals will reinforce, and to some degree restore, the service mandate of Business Development Centres as opposed to a preoccupation with survival, which evidence indicates drives centres off their mandate.

VI Recommendations

The recommendations are categorized as they relate to:

- general
- the short term funding structure
- the longer term funding structure
- productivity norms and measures
- wind-down and close-out.

For each recommendation, there is a policy paper and/or one or more "Issue Sheets" which summarize the results of consultation as well as the recommendations and rationale of the project Steering Committee and Work Group. These documents are annexed and referred to under each recommendation. Although not necessarily exhaustive, the issue sheets attempt to identify the authorities required for the recommended changes and the implications in documents or work instruments. Where appropriate, other documents relevant to recommendations are included in further annexes in Volume II and Volume III of this report.

A. General Recommendations

1. Sunset Clause

Community Futures selections and the Business Development Centre specifically were originally designed as limited interventions both in time and magnitude. The reversal of or adjustment to major economic deterioration is a long term process, recognized by program authorities and development/adjustment experience.

Community Futures generally and the Business Development Centre specifically meet long term needs; and the sunset clauses on community selection (six years) and on the Business Development Centre (five years) should be maintained, NOT as a date for termination, but as a bench mark date for fundamental review - re-evaluation, adjustment and as a decision point for continuation or withdrawal of EIC support.

2. Community Futures Context for Continuing Support

The success of the Business Development Centre is not only determined by its job creation maintenance and technical service productivity but also by the degree to which it contributes to the development plan of the Community Futures Committee and demonstrates its continuing relevance to accepted Community Futures priorities and processes.

Longer term funding support decisions for Business Development Centres should be based on a renewal of the Community Futures selection and be the result of a fundamental review of the selection, the operation of the Community Futures Committee and the Business Development Centre option and be conditional upon a proposal from the community partnership, (i.e., the Community Futures Committee or Business Development Centre endorsed by the Community Futures Committee) that demonstrates

- maintenance of Community Futures principles - maintenance of the strategic planning function; continuity of Business Development Centre appropriateness to the strategic plan; acceptable representation of

development/adjustment stakeholders and resources; accountability to the community; support from the Community Futures Committee and the community;

- assessed Business Development Centre productivity including a record of productivity and cost effectiveness of Business Development Centre operation within acceptable regional norms;
- acceptable productivity and cost efficiency targets; acceptable interaction with and integrity within the area strategic planning function; and
- consistency with the EIC regional program strategy and norms as well as budgets.

Business Development Centres that have failed to meet acceptable standards of past performance and fail to demonstrate a capacity to achieve acceptable targets within a Community Futures context, regional norms, program strategy and budgets will be discontinued.

3. Freestanding Business Development Centres

There are 29 freestanding Business Development Centres which were formerly LEAD Corporations but which were not located in communities selected for Community Futures. The reasons for non-selection vary:

- need - the community was not selected because it did not meet Community Futures criteria relative to facing a situation of chronic unemployment, a major adjustment situation, or non-metropolitan status;

- viability - the community was not selected because it did not meet Community Futures criteria relative to being evaluated as having a viable economic base and potential for recovery and stabilization;

- budget - although it met Community Futures criteria, the community was not selected because it was not a priority.

As of October 31, 1987, all former LEAD Corporations were converted to Business Development Centres and currently receive funding under the option. The differences from other centres are that funding received under previous programming is cumulative and freestanding centres are not connected to a Community Futures Committee. These centres operate under the mandate established by the original sponsor of the LEAD Planning Phase. Within about 18 months, all freestanding Business Development Centres will have exhausted the maximum funding amounts but will require additional support. The prospect is that most will fail without additional support.

These freestanding centres have contributed significantly to the development and success of EIC programming. Some represent potential selections, whereas several represent viable and reasonable pilots for community-based development in communities in crisis within metropolitan area boundaries.

Freestanding Business Development Centres should be included in the provisions of this review subject to the same conditions as Centres in selected areas, conditional upon:

(a) Productivity Assessment

(1) Where a need and opportunity can be demonstrated;

(2) Where past productivity and cost effectiveness of operation have met regional norms;

(3) Where targets and forecasted costs meet regional expectations;

(b) Demonstration of Community Futures principles

(1) The existence of an acceptable strategic development plan for the community served, which demonstrates the need for and acceptability of the centre;

(2) a relatively independent body, representative of the community served, that is the custodian of the plan;

(3) acceptable representation of development/adjustment stakeholders;

(4) accountability to the community; and

(c) Consistency with the regional program strategy, norms and budgets.

Freestanding Business Development Centres that fail to meet these standards will not be supported.

4. Structures of Future Support

Specific proposals for the Community Futures Committees in the context of longer term support will be presented upon conclusion of a policy

review of the Committee and other options. It can be anticipated, however, that a continuation of Community Futures into a "second generation" would place greater weight on the maintenance of Community Futures principles and allow increased flexibility on the part of the community to propose an organizational structure, in support of these priciples, that is appropriate to the community.

5. Short Term Structure Recommendations

The short term support structure for Business Development Centres should be revised to: (a) streamline and improve the effectiveness of centres and EIC administration, and (b) facilitate a transition into the fundamental review and "second generation", if approved.

Centres with previous experience as LEAD corporations are negatively affected in years four and five by anomalies in current policy and begin to reach these points in large numbers in fiscal year 1989-90.

The recommendations on short term support, however, stand alone and require redress independent of the recommendations concerning longer term support. These recommended changes are required immediately.

B. Specific Recommendations

B.1 Short Term Support Structure

1. Contribution Fund

The funding structure for Business Development Centres over the period of selection should be adjusted to allow a maximum contribution of $150,000 per year to a maximum overall of $750,000 over five years. (Annex II).(12)

The current diminution to $110,000 in year four and to $75,000 in year five was predicated on "weaning" centres from EIC support to either generated revenues or substitute funders.

The impact of these reductions is negative. As referred to earlier, the history of similar programming and the experience of Community Futures indicate that substitute funders are not forthcoming. Similarly, self-sufficiency based on revenue is likely in only a few cases.

This provision militates against self-sufficiency by requiring centres to use an increasing portion of revenues to support their operation, thereby decreasing their asset base. This diminished availability of support occurs as demand for services and associated costs are maximized. The centre is peaking in terms of the value of its investment fund and the number of investments. If the centre is true to mandate, it has achieved its highest volume of developmental clients and expectations of entrepreneurial development in the area.

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(12) Business Development Centres without an investment fund would receive a maximum contribution of $100,000 per year to a maximum of $500,000 over five years.

In addition, the current contribution to the overhead costs of the Business Development Centre totals $635,000 over five years. This contrasts with an equivalent contribution to LEAD Corporations of a maximum of $750,000 (1983-86). The LEAD program provided for additional support in years four and five, since the LEAD Corporations were expected to have proven themselves and to have developed a higher level of activity in the community. LEAD allowed for up to $180,000 in years four and five. Many Business Development Centres had established their original plans in the light of this policy.

2. Exceptional Authority

The EIC grant to the Business Development Centre loan fund currently has a maximum of $1.55 million. A number of Business Development Centres operate in areas and under circumstances where the need and opportunity within the community and their history of management and productivity would warrant an increase to the loan fund(13).

The Minister should have authority to exceed the existing and proposed limits (grants and contributions) where exceptional need and opportunity for local development are demonstrated and when all conditions for continuing support are met(14).

The Minister would require an amendment to Treasury Board authorities to give effect to this recommendation.

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(13) Some 28 Business Development Centres will reach the maximum of their loan fund within fiscal year 1989-90; 47 in 1990-91.

(14) In order to ensure that assessments of productivity and forecasted activity can be based on hard consistent data, the data base and forecast tool developed in the review and process for establishing regional and national norms of cost efficiency will be initiated in April 1989.

3. Loan Fund: "Cumulative" Limit of $75,000

The "cumulative" limit of $75,000 in loans to any one business should be removed.

Current authority limits not only the maximum of any one loan to $75,000, it also limits the cumulative loan activity to any one business to that amount. It is only reasonable that over the long term, cumulative loans totalling in excess of $75,000 would be warranted, without abrogating the principle of the centre being a "last resort" lender. This restriction is not warranted.

4. Loan Fund - Exception to $75,000 Limit

Although the loan ceiling of $75,000 is generally acceptable, there are cases where authority to exceed the amount would protect the job maintenance mandate and the financial interests of the centre. For example, Business Development Centres frequently undertake joint ventures with other lending institutions with the latter taking first position on the available security. When the loan defaults, the business is terminated and minimum value for assets are realized by the creditor in first position. In such cases, jobs are lost and the Business Development Centre loses most or all of its investment. If the Business Development Centre were authorized to buy out the primary lender, it could exercise its broader mandate of employment maintenance to work towards business stabilization or at least regain some portion of its investment.

In exceptional circumstances, where business maintenance, employment maintenance and/or protection of investment warrant(s), and with prior authorization from EIC, Business Development Centres can exceed the $75,000 loan limit.

The authority requires delegation to Regional Program Management from the commissioners' level to be effective.

5. Loan Guarantees

Under current authority, grants planned for loan guarantees by Business Development Centres are held back by EIC. Funds are advanced only if the client defaults in its payment and the centre is required to repay the balance of the loan. In effect Canada is the guarantor.

While loan guarantees represent no more than two percent of Centre investment fund activity, they are sometimes useful mechanisms to bring new businesses into or restabilized businesses back into the realm of regular financial institution assistance through establishing credit standing. In most instances, banks require a deposit from the guarantor to assure the loan guarantee.

Business Development Centres should be permitted to receive grant amounts toward loan guarantees when the regular lender requires a deposit of assurance.

6. Supplemental Travel Cost in Northern Centres

The review of the Community Futures Committee funding structure resulted in an additional contribution of up to $100,000 over the selection period to cover supplemental travel costs in areas designated as Northern Canada.

Business Development Centres in remote areas are subject to identical conditions and increased requirements to travel.

Business Development Centres in areas defined as NORTHERN as per the CJS Relocation and Travel Assistance option should be eligible for up to $100,000 in additional contribution funds to cover supplemental costs of travel.

7. Confirmation of Loan Refusal

Current guidelines require the client to confirm that an application for the funding being requested was refused by the Federal Business Development Bank (FBDB). This requires Business Development Centre clients to travel sometimes considerable distance for the sake of a refusal which is inconvenient and discouraging(15). The FBDB does not normally lend to the Business Development Centre clientele considering the average loan size and risk factor.

It is recommended that the onus be placed on Business Development Centres to confirm with FBDB that the request for financing was, or would be refused, and to so document the client file for compliance purposes.

8. Earnings

The Business Development Centre Option allows for the transfer of investment fund earnings to be applied to the operating costs of the Centre after the third year of operation. There is no clarity of definition or consistency in practice as to whether the earnings are gross (interest revenues, fees, etc.) or net earnings (earnings less losses: bad debts, bank charges, etc.). This is a case where consistency is warranted.

It is recommended that earnings be defined as net earnings.

9. Equity

The report Review of Community Futures (February 1988) and the paper on Entrepreneurship and the Canadian Jobs Strategy both suggest that Business Development Centres be authorized to "... purchase equities of new, under-capitalized companies."

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(15) See footnote (16), page 32 for an external view on the requirement for refusal.

This particular issue was debated extensively in the review and recognition given to the articulate expression of the issue in the report of the Economic Council of Newfoundland and Labrador (November 1988)(16). Equity investment represents about 11 percent of the loan fund activity of Business Development Centres. This represents a reduction from 25 percent with LEAD Corporations. In order to facilitate equity investment, the requirement that the client buy back the shares from the Business Development Centre was maintained but the three-year time frame was dropped.

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(16) The statement on this issue by the Economic Council of Newfoundland and Labrador in its study: Equity Capital and Economic Development in Newfoundland and Labrador, November, 1988, is quoted at length below, because of its clarity and relevance to the issue.

> Business Development Centres under the federal Community Futures program are active in five regions of the Province and can provide equity capital to businesses. One of the benefits of a Business Development Centre is that it can provide quick turnaround on a business proposal because decisions are made at the local level. While Business Development Centres have the potential to make an important contribution to business development in the Province, certain conditions of their operation appear to constrain their effectiveness as a source of equity capital for entrepreneurs. At least three factors appear to limit their potential.
>
> First, if the Business Development Centre takes an equity position in a business, there must be an agreement that provides for the buy-back of shares from the Business Development Centre at a price that would allow a return on investment at least equal to the commercial rate of interest on the funds invested. In this context, the equity is effectively a loan. While program officials indicated that, generally, the equity would not be withdrawn until the business can afford to repay it, the objective nevertheless is to recover the money as quickly as possible. This is because Business Development Centres have to become self-sufficient in approximately five years. Under these circumstances there is pressure on the Business Development Centres which may force them to request a return of their equity too quickly, or which may force them to place more of their funds in the form of loans at the expense of clients who are seeking equity.
>
> Secondly, there is a requirement that people coming to a Business Development Centre for financial assistance must have been rejected by FBDB and other lending institutions. This creates a fundamentally negative image of the role of Business Development Centres as a tool for business and economic development. Instead, Business Development Centres should be a pro-active and positive force in business development, and any regulations which counter this role, such as the one cited above, should be changed.
>
> Thirdly, the raison d'être of Business Development Centres (under the Canadian Jobs Strategy) is job creation, and this is a priority in assessing business proposals. On occasion, this may override other considerations.

Some Business Development Centres wish to maintain and/or increase their equity investment role. Others with considerable prior focus on equity investment are retreating from it. One particular Business Development Centre complained strenuously about the limitation of the loan fund cap which will result in their inability to make any loans in the forthcoming year. This Business Development Centre has concentrated its activity in equity investment and "put its money to sleep" for the foreseeable future. Equity investment is high risk and has as its primary goal return on investment. The primary goal of the Business Development Centre, however, is employment generation through business creation, stabilization and expansion. The loan fund is a necessary and useful means to that end but is not an end in itself.

With regard to the criticisms being made of the equity provisions as they currently exist, the information available to the review leads us to understand that it is common practice for equity investments to require a buy-back provision.

The accusation that Business Development Centres would jeopardize business clients by exercising the buy-back provision is neither fair nor appreciative of the Business Development Centre mandate. It does, however, correctly reflect the limitation on duration of funding support and the concomitant concern with any financial arrangement that jeopardizes their survival.

The provisions that set the rate of return on equity investment at a level at least equal to that on loans have been applied in a flexible manner in most regions. Return can be obtained through a combination of management fees, guaranteed, cumulative dividends and capital gains. In return for a guaranteed rate of return, the BDC must compromise on the potential for greater profits. The equity tool is still equity and not a disguised loan. Such investments are unsecured, appear on the balance sheet of the business as equity and can assist clients in obtaining further debt or equity financing and better suit the cashflow of a new or expanding business. The provisions setting the rate of return on equity at at least commercial interest rates protect against equity being used to make disguised grants and are consistent with the other conditions governing centre investment policy.

It was the general consensus of the Steering Committee and Work Group that there is considerable scope for equity investment within existing authorities and that the limitations are not inconsistent with normal equity investment practice. Equity investment considerations must be weighed against the mandate of the Business Development Centre as currently directed towards employment creation and maintenance impacts. The modest level of the investment fund reinforces the focus on this objective. Equity investment takes money out of circulation for a long duration in anticipation of extraordinary compensation.

Approval of a longer term funding regime would address some of the concerns which restrict equity investment. Recommendation 7 would reduce the "last resort" image of the Centre while retaining the responsibility to ensure non-competition with other institutions.

The employment generation priority in assessing proposals should be retained and consideration of proposals for equity investment must take into account the ratio of investment to job creation not only with regard to any proposed investment but to the cycle of reinvestment of the same funds through regular loans.

It is recommended that the exceptional authority of the Minister be sought to increase the loan fund, or that specific equity proposals be responded to through the Community Initiatives Fund with the Business Development Centre/Community Futures Committee acting as the investment agent. This would occur only when the following conditions are met: (1) the need for and opportunity for equity investment is in excess of what is reasonably possible through the current loan fund; (2) the employment generation potential is consistent with loan fund norms; (3) other conditions, as for Business Development Centres continued funding, are met; and (4) funds are available.

10. Debt Collection Costs

Where clients default on loans, action is taken to recoup losses or collect debts. These actions invariably incur costs to the centre. The wording of the investment fund agreement restricts use of that fund to new investments. By implication, this requires that debt collection costs be charged against operating funds. A Business Development Centre operating at or near its maximum may have no recourse against a client since there would be no way of paying the legal or other costs entailed.

When responsible debt collection action would be restricted due to limitations on the centre's operational funds, regional program officials may authorize that debt collection costs be charged to the investment fund.

11. Selection and Option Duration

The actual authority for duration of options is reflected in the ED Manual, Chapter 6.06 (6):

> Each option is available for five years, from the date the first option is approved as recommended by the Community Futures Committee.

In addition, ED 6.06 (4) provides guidance on the Community Futures Committee:

> ... six years from original date of approval of the Community Futures Committee by the Minister.

The concepts are needlessly confusing and lack clarity in that the Community Futures Committee can be described as an option itself. This inappropriately ties all options together rather than linking them to the Community Futures Committee or the selection.

It is proposed that the wording be revised to reflect that:

1) the selection is for six years,
2) the duration commences with a signed agreement with the Committee,
3) the options (not Community Futures Committees) may normally operate for up to five years within the selection period,

and

4) when a selection is not renewed, a reasonable time and appropriate funds can be provided to permit orderly wind-down.

12. Acquisition of Assets

Some Business Development Centres and EIC participants propose that Business Development Centres be authorized to use their investment funds for additional kinds of investments, e.g. to buy, own, operate businesses, sell goods and services, invest in real estate, etc.

Some observers have commented that EIC is too restrictive with Business Development Centres by limiting their scope and hence their profitability, self-sufficiency and business input.

It is recommended that Business Development Centres should retain their current mandate and that the investment fund contribution continue to be limited to its current scope of - loans, loan guarantees and equity investment.

This is not to imply that the review views these wider or alternate goals as non-productive or contradictory. The review concludes that there is already considerable scope available to the centre within the terms of EIC support. Expanded activity is acceptable and may even be an appropriate initiative should additional funds and partners emerge provided that the original mandate and loan fund are not jeopardized.

It is recommended that the Business Development Centre be permitted to acquire real property for its own purposes as an alternative to renting or leasing, when the cost is equivalent or less and particularly when self-sufficiency is reasonably expected. The acquisition of property beyond a centre's own needs is an expense that the program will not reimburse.

13. Amendments

Under Job Development and Job Entry, regions have authority to approve agreement dollar amendments up to a certain maximum. This is a reasonable, responsible and necessary administrative authority required by the program administrators. No such authority prevails within the Community Futures program as the Minister retains all approval authority. Amendments to agreements are required regularly and the absence of authority to conclude normal transactions by regional program staff is inefficient and results in credibility problems.

It is recommended that regions be delegated to authorize amendments up to 10 percent of the annual grant agreement and up to 25 percent of the annual contribution agreement.

14. Regional Associations

The contribution made by Community Futures Committees and Business Development Centres to this review was invaluable. These individuals are indeed the "sharp end of the ship" for the program and whether relayed through regional officials or directly, many of the issues

requiring policy and/or operational consideration originate at the community level. In addition, the concept of "partnership" with the community actors is an integral element of the program policy and practice. The program has been criticized by the Canada Employment and Immigration Advisory Council for not living up to its rhetoric in this regard(17).

This review incorporates an intense consultation process. Consultations with the majority of Business Development Centre Board chairpersons and managers across the country occurred either directly or indirectly in group sessions or workshops. As many Community Futures Committee chairpersons as possible were included in this consultation. In many instances, Community Futures Committee or Business Development Centre regional associations hosted consultation sessions and provided a venue for wide-ranging discussions. In a number of instances these associations indicated that they could serve a useful purpose in specific initiatives to review, assess, pilot or otherwise contribute to program development. Whether through regional associations of Business Development Centres, Community Futures Committees or other external expertise, the value of external research and assistance in policy review is invaluable, but costs must be met.

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(17) "While it is too early to make an assessment, their (Community Futures and Innovations) effectiveness could be weakened by the fact that they are federal programs, centrally managed and not clearly understood. In spite of claims to the contrary, there is also a danger that they may not always allow communities to assume a leadership role." (CEIAC, Interim Report Innovative Approaches to Enterprise Development, pp. 28-29).

It is recommended that a provision for delivery assistance of up to $100,000 annually for each region and national headquarters be incorporated into Community Futures so that regional associations of Community Futures Committees or Business Development Centres, individual Community Futures Committees or Business Development Centres or other suitable resource groups be funded to analyse, track, study, pilot or otherwise be contracted with for activity relevant to program analysis, research or development.

These funds will not be used for the ongoing operations of the association, group, etc.

B.2 Long Term Support Structure

General recommendation (1) proposed that the sunset clause on Community Futures selections be opportunities for fundamental review and decision. Subject to continuity of need and opportunity for the program, acceptable performance history, acceptable targets of activity, appropriateness and continuing acceptability of stakeholder representation and accountability as well as a viable strategic plan for community development with an appropriate and relatively independent custodian, communities and Business Development Centres should be eligible to receive a "second generation" of support for up to five years.

The earlier content of this report constitutes the rationale for the longer term support and will not be repeated here. This section is meant to signal, in general terms, the conditions for and shape of a regime for longer term support and the process for entering into a second generation of Business Development Centre support.

Since the Business Development Centre is usually the first option recommended, the sunset on the selection, the Committee and the Business Development Centre will be relatively parallel. This will facilitate the review and renewal process.

The following recommendations provide more specific policy proposals for the design of the "second generation". The Policy Paper and Issue Sheets in Annex III contain more detailed treatment of the issues.

This review focuses on the Business Development Centre; the overall selection and implications for other options will be considered in a separate project and reported on in the fall of 1989. In anticipation, this review strenuously recommends that any consideration of longer term support for Business Development Centres be based upon the continuity of its operation in a Community Futures context.

1. Regional Strategy

The vehicle for closing out the first generation and providing direction to the second generation is the Regional Strategy.

It is recommended that regional strategies be established that include the following elements:

(a) Regionally established goals concerning:

- targeting of the option, the range of communities to be served from remote, resource-based communities to relatively urban, industrialized communities;
- results to be achieved in terms of ending support to certain situations, achieving self-sufficiency of Business Development Centres over the life of the second generation for a certain range

of situations, providing continuity of support for a further range of situations;

- application of employment equity principles to the program generally and specifically a commitment to provide service to native communities;

(b) measures to be used to establish the need and the framework for establishing the level of opportunity in the community;

(c) measures to be used and the framework for establishing acceptable levels of performance, the application of regional norms for cost per job;

(d) expectations and range of acceptable activity to be included in the community plan; e.g., expectations could deal with the development of a sectoral strategy and a human resource development plan while the range of acceptable activity could include a statement limiting activity to promoting internal growth and the development of unique resources in the community and excluding industrial promotion and location strategies;

(e) the regional budget for 12 months and a five-year projection.

2. Community Futures Philosophy

The Community Futures Committee is the expected custodian of the strategic plan. It is recommended that different organizational structures be accepted as long as the characteristics of Community Futures are maintained. For instance, some communities may want to

adopt a single-tiered structure or locate the planning function in an existing body. While avoiding duplication of effort, there must be relative autonomy between the planning and delivery functions. The second generation intent is to reinforce the community development and strategic planning principles which underlie support to Business Development Centres while permitting flexibility in application.

3. Continued Support

It is considered sound policy to establish a new sunset and cumulative funding caps so that interventions may be periodically re-assessed. It is recommended that the second generation should have a limited time frame of five years.

Further support will be required for over 80 percent of Business Development Centres to maintain their level of technical services and meet their investment budgets. The survey of centres conducted by the review showed the average cashflow deficit projection to be $100,000 per year over five years. However, the amount of support required in any one year and by any one BDC varies greatly with circumstances. In order to meet the range of circumstances covered by Business Development Centres, a maximum somewhat higher than the average is required. It is recommended that the second generation provide support for the operations of the Business Development Centres of up to $150,000 per year to a total of $750,000.

Some BDCs have experienced a longer learning curve or slower growth due to limited demand than others. The $1,550,000 grant appears to provide adequate seed money for the investment fund in a majority of communities. Limiting the period to request this grant to five yaers puts pressure on BDCs to find ways to accelerate growth and concentrates

their attention on their own self-preservation rather than on the strategic plan and community needs. Some BDCs will not be able to invest the full grant in five years.

It is recommended that BDCs may requst grants to the Investment Fund up to $1,550,000, cumulative total including all previous program grants to the fund (no time limit).

It is recommended that the Business Development Centre mandate should remain as currently defined including the recommendations made in the framework of the short term funding regime. Therefore, the investment fund remains dedicated to providing financial assistance to small business. Business Development Centres are not to go into other lines of business themselves, at least not through the investment or operating funds, and are not to acquire assets through these funds other than those reasonably required for their own needs. Centres are encouraged in the development of their proposals for support to enlist additional partners and other funds.

Business Development Centre Corporations may choose to become involved in other dimensions of local economic development. This is quite acceptable as long as the integrity of the operating and investment funds is maintained. A Business Development Centre wishing to enter into other areas of activity should structure its decision-making process so that decisions concerning investments and technical service delivery are not clouded by the other interests of the corporation. An expanded role for the Business Development Centre as described must be clearly presented in the proposal for continuing support and be clearly endorsed by the Community Futures Strategic plan. Though the activities must be essentially funded from other sources, EIC has a priority interest in the activities with which its support is associated.

4. Funding Model For Second Generation Business Development Centres

Business Development Centre planning should be market-driven and respond to the needs of the community as identified in the community strategic plan. Based on strategic goals and an intimate knowledge of community needs, Business Development Centres should establish service and investment plans including operating and investment budgets. Following these steps the Centre should do a statement of source and allocation of funds, and finally establish its funding requirement and request with Community Futures/EIC.

The plans and funding request would be negotiated and support would depend on an annual review including historical results, proposed activities and community plan, and regional priorities. Funding to Business Development Centres would be on a cashflow basis; i.e., Business Development Centres may not accumulate cash reserves beyond their short term needs for their ongoing activities. Interest income and returned principal would be used in first place to meet the requirements of the investment plan, and service income would be used to cover operating costs. Excess income would be used to offset any projected deficits before the calculation of Canada's contribution or grant. With permission from Canada, revenue may be maintained in order to build up the Business Development Centre assets but only in order to meet approved investment targets. The only justification for cash reserves are bank requirements subsequent to loan guarantees. Cash reserves may not be built up solely in order to become self-sufficient when the community economic base does not justify an investment fund of that size.

Funding on a cash flow basis would have the effect of maintaining Business Development Centre activity and services through different levels of demand and availability of funds. A Business Development Centre could reach a state of equilibrium where returned principal was adequate to meet investment targets but where investment fund income was inadequate to cover all operation costs. EIC would fund the deficit after negotiating the level of services proposed by the Business Development Centre and ensuring that the Business Development Centre was applying zero-based budgeting. A Business Development Centre with additional demand could be kept at this level depending on the availability of funds without putting the Business Development Centre in jeopardy.

A Business Development Centre with additional demand for its investment funds could be allowed to retain investment fund revenue in the investment fund in order to meet its investment targets. In this case, the Business Development Centre assets would continue to grow. Regions might wish to limit this growth model to Business Development Centres that demonstrate the potential for and progress towards self-sufficiency. A region could permit growth in a Business Development Centre with satisfactory performance, sound administration and which is in a community that is a regional priority even though the Business Development Centre did not project attaining self-sufficiency. This is an important point since some experienced Business Development Centres do not project a breakeven point; i.e., their costs rise faster than increased revenue with higher levels of activity. It is also important to note that in the short and medium term, the growth model is more costly to the program than the stable, no-growth model. Depending on the availability of funds, Business Development Centres might not be allowed to grow at the rate that they may wish. The region could establish a priority list for bringing Business Development Centres to their breakeven points.

Retention of service revenue is not seen as an issue since the level of services to be provided must be negotiated along with the contribution or grant from EIC, and policy will be that revenue is used to reduce the level of federal funding.

It is recommended that a cashflow-based funding model be adopted as per the following formula:

- Sources of cash:
  - Returned Principal $_____
  - Investment Income _____
  - Service Income _____
  - Contributions from other sources _____

  Total Cash In $_____
- Uses of Cash:
  - Investment Budget $_____
  - Operating Budget _____

  Total Cash Out $_____
- Cashflow Deficit (surplus) $_____
- Funding Requirement $_____

B.3 Goals and Measures

The review concluded that program analysis and management required adequate norms and measures of productivity for Business Development Centres. This need is accentuated if a policy of continuing support is adopted. General consensus was reached that:

- goals and measures were necessary to promote and sustain efficiency;

- the data base and collection methodology must be consistent and the process of norms and measures bd established and maintained;

- the process of the development of a data base and productivity norms must be evolutionary and commence in 1989-90;

- regional and particularly local variance from norms must be recognized. What is sought, is general adherence to national and regional norms and rationalization of variance rather than blind adherence;

- norms and measures cannot be applied in isolation from circumstances and characteristics of specific communities and other factors that influence decision-making, e.g., regional strategies, the local environment, Community Futures Committee strategy, Business Development Centre maturity.

It was determined that the productivity data available on LEAD Corporations and Business Development Centre data from the first three quarters of fiscal year 1988-89 as well as the review survey were relatively consistent and that each of these data sources included a wide variety of cases - remote and urban locations, sparse and concentrated, large and small populations, high to extremely high unemployment, and new and mature operations. Therefore, the production of tentative regional norms now and the recommended process for norms development based on these tentative norms

reasonably respect the conditions of program delivery and development and the wide variety of circumstances and conditions that Business Development Centres services encounter.

1. Initial Norms

It is recommended that regional norms be established for the productivity of Business Development Centres based upon the sum of the number of jobs created and maintained as reported by Business Development Centres over the period April 1988 to December 1988 divided by the cost to Canada, both contribution and grants (obtained from EIIS).

These initial norms have been negotiated with Regions[18] based upon agreed upon data.

Business Development Centres - Norms

Region	Norm/Cost per Job
Newfoundland	$3,908
Prince Edward Island	$5,175
Nova Scotia	$4,284
New Brunswick	$3,897
Quebec	$4,120
Ontario	$4,144
Manitoba	$7,773
Saskatchewan	$17,017 (18)
Alberta/Northwest Territories	$11,309
British Columbia/Yukon	$3,275
Canada	$4,260

(18) See Appendix to Annex IV. The norm for Saskatchewan represents existing data but is not considered representative of program potential and will be adjusted.

These norms do not explicitly measure the technical services productivity either in jobs affected or other benefits of the Business Development Centre to the community. The information used to calculate these norms was gathered over a period when the level of the technical and other services was deemed to be acceptable, even laudible. The norms are consequently broad enough in latitude to permit a range of technical services and community economic development involvement appropriate to the program as well as the investment fund service. Therefore, these tentative norms should not result in a focus on investment fund activity to the detriment of the broad Business Development Centre mandate.

These initial norms reflect a gap between when funds are disbursed (obtained from EIIS) and when the jobs are created (obtained from Business Development Centre quarterly reports). This should average out and the consistency of results obtained by different methods is already encouraging. With the data collection tool proposed for implementation as of April 1989, both these limitations will start to be corrected. A national data base on the ratio of technical to investment services will start to build up counteracting the danger that the norms based on investment fund results shape Business Development Centre priorities and activity. Secondly, the data collection tool will allow funding and job creation to be brought together much more tightly providing a more accurate picture as well as consistency of method.

2. Data Collection and Norms Setting Process

The initial norms are clearly tentative and their refinement must be maintained. The data collection tool was designed in consultation with regional staff and the Planning and Monitoring Branch in headquarters. This tool was utilized and tested out in the survey of 19 Business Development Centres (Annex IV).

It is recommended that the data collection tool established by the review should be implemented effective the first quarter of fiscal year 1989-90. At the end of 1989-90, data obtained from the data collection tool will be used to set a firm product cost to EIC, to be updated annually.

Throughout the review, various "cost" and "product" measurements were recommended. For example, the real cost per job, it is suggested, is really only investment write-offs or losses. From another quarter, a complex community cost/benefit ratio was proferred. We have selected to measure cost in terms of cashflow, but the essential point is that it is only when a consistent, relatively simple measure which is relevant to EIC and to the Business Development Centre is available will variants be appreciated. The implementation of the data collection instrument will permit the development of further refinements in capturing Business Development Centre results.

It must be remembered that Business Development Centres are subject to annual review, independent audit and regular monitoring. The annual review process is extensive and Business Development Centres submit complete reports on their activities and their plans for the next twelve months.

Business Development Centres funding agreements include measurable goals and objectives to which Business Development Centres are held accountable. The problem is that the information is not captured nationally. The quality of service and the impacts of technical services will continue to be tracked through reporting, monitoring and review while national and regional norms are being developed.

3. Quality of Service

It is recommended that formal evaluations and specifically a survey of Business Development Centre clients to measure quality of service be considered and, if it is feasible, implemented in 1989-90.

In the interim, in the annual proposal for funding, particularly as a Centre is reviewed for "second generation" support, mandate and measures of qualitative service should be clearly articulated and acceptable targets incorporated in agreements to be monitored and assessed regularly as per current guidelines.

An important conclusion of the survey of Business Development Centres is that there is no "average" Business Development Centre but a wide range of unique situations. The Community Futures process demands that Business Development Centres be tailor-made and not "off the rack". Data collection is essential to be able to describe what the program is doing and better norms are desired by all partners involved in the program to be able to evaluate and adjust individual performance.

Norms will have to be flexible and will be one factor in the decision-making process. For instance, norms should vary with the economic cycle as Business Development Centre activity and results could change greatly between boom and bust, high and low interest rates, etc. Nonetheless, national and regional norms will be an essential tool for the program.

The objective in developing norms is to ensure overall management of productivity and cost effectiveness while supporting specific activities which may cause a variance from norms for reasons of regional strategy and priority. As cautioned by the Steering Committee and Work Group, the norms development is evolutionary and expectations are for rationalization of variances, not narrow adherence.

B.4 Wind-down

The policy review followed up on a general recommendation of the Community Futures Review to examine the issues involved around terminating EIC's relationship with a Business Development Centre. These issues were grouped under the heading of Wind-down and arise from situations as varied as a centre achieving self-sufficiency and not requiring further support, the closing down of a centre on our initiative for non-performance or non-respect of the terms of the agreements, and the termination of support due to funding priorities.

1. Guidelines for Agreement Expiration

How can EIC be sure that the assets entrusted to a Business Development Centre continue to be used for their intended purpose after all contracts have expired? Should EIC continue its involvement to ensure that assets are used appropriately? The review recommends that EIC recognize the strength of its partnership with Community Futures communities and not attempt to exercise control from beyond the grave as it were. It was deemed not feasible to attempt to control the use of assets indefinitely. Rather, Business Development Centres are high profile and community controlled. Volunteer boards are motivated by service to the community and have limited capacity to use the assets for any purpose if individual board members are to maintain their reputation in the community. Therefore, it was felt that better results could be obtained by reinforcing community pressure and responsibility than by other means.

It is recommended that improved guidelines be developed relative to the procedures to follow when the terms of a Business Development Centre contract are about to expire. These procedures should include a letter of intent from the centre's board that they intend to pursue the Business Development Centre mandate; a letter from EIC to the centre allowing the BDC to retain its assets, thanking the volunteers for their participation, and recognizing that the centre was now considered self-sufficient; and a public announcement to the community (e.g. local press release) that in a positive tone would announce the successful conclusion of the contractual relationship, underline Community Futures principles and the Business Development Centre mandate, and in this way make clear the end of our involvement and responsibility.

In this way we would publicize the successful spinning off of a viable community organization, protect the BDC mandate by giving it further publicity and disassociate ourselves from any future, unforeseen problems.

2. Default Clause

Current agreements contain a clause indicating that support may be terminated with thirty (30) days' notice. This clause was considered self-defeating since it would also cancel our control over the use of the assets specified elsewhere in the agreement.

It is recommended that default clauses replace the current termination clauses in Business Development Centre agreements in order to preserve Canada's right to direct the disposition of assets in the case of termination of funding.

3. Disposition of Assets

As not-for-profit incorporations, Business Development Centre articles of incorporation include clauses directing the disposition of assets should the corporation be dissolved. Current policy states that the method of disposition must be acceptable to EIC and indicates priorities to be followed in disposing of assets. However, there are possibly as many actual articles as there are Centres, and there is a potential that these different articles may be subject to widely varying interpretations so that the original intention might not be respected in all cases.

It is recommended that a standard clause applicable to all regions should be developed covering the disposition of assets should a Business Development Centre be dissolved. This would be followed by a review and revision of articles of incorporation by Business Development Centres to meet program policy requirements.

4. Dissolution or Amalgamation

While EIC has considerable expertise in the disposition of assets and in the wind up of our involvement following project-based, contribution type funding, the dissolution of a Business Development Centre presents particular problems in dealing with assets acquired through grants and which are in the form of a loan portfolio. The preferred outcome is to transfer the assets to a similar organization. The procedure is both lengthy and complicated. Every document, loan agreement, security document, loan guarantee, share, etc., must be transferred and re-registered individually. Considerable legal and audit fees are normal and there must be a public announcement.

Quebec and Newfoundland regions have experience in the area of transferring ownership of a loan fund portfolio, and their expertise should be tapped to develop na nal guidelines. It is recommended that national guidelines be developed and that regions should have access to up to $10,000 per transfer to ensure that all legal and audit costs are assumed should the Business Development Centre be insolvent.

In certain situations, regional program officials have wanted to amalgamate two Business Development Centres. These situations can arise where performance by one of the Business Development Centres is unacceptable, where there is insufficient investment opportunity for a Centre to be cost effective or where funding priorities dictate a fusion. What is the impact of such a situation on the cumulative funding amounts available to the receiving Business Development Centre? If the assets of the Business Development Centre to be dissolved are included in the cumulative funding of the receiving Business Development Centre, there is little incentive for the receiving Business Development Centre to collaborate in the process.

It is recommended that when a Business Development Centre is dissolved and another Business Development Centre is expected to receive the assets and provide service to the area, the assets are deemed to be transferred from one legally incorporated body at arms length from Canada to another, and the receiving Business Development Centre may still receive up to the program maxima to meet its mandate. In the case of amalgamations a note of caution is expressed as to the importance of respecting the community based approach and Community Futures principles in general.

VII Costs

A. Long Term Support

The costs of longer term support will kick in as the current five year support for Business Development Centres terminates. The level of support

would be based on a cashflow basis, i.e., the difference between cost of service and revenue available. Rather than an average annual contribution and grant total of $418,000 that is required to support Business Development Centres in their first generation, the cost estimate is approximately $100,000. Some minimal expectation of loan fund (grants) requirements are envisaged, where the Business Development Centre forecast shows a longer than five year period required to reach the maximum of the loan fund. This will cause an equivalent reduction in the initial five-year requirement.

For illustration purposes, the following chart shows the rate of Business Development Centres moving into second generation of operation and the associated estimate of cost change over the period.

Model of Transition and Cost of
Business Development Centres into longer term support

	Number of Business Development Centres			Estimated Cost		
Fiscal Year	BDCs First Generation	BDCs * Second Generation	Total Operative	First Generation $ Million	Second Generation $ Million	Total $ Million
1989-90	231	0	231	93.8	0	93.8
1990-91	225	5	230	89.4	0.5	89.9
1991-92	208	19	227	81.4	1.9	83.3
1992-93	122	88	210	51.7	8.8	60.5
1993-94	66	132	198	27.8	13.2	41.0
1994-95	0	185	185	0	18.5	18.5

* It is assumed that 80% of Business Development Centres will move into second generation, 10% will be not meet expectations required for support and 10% will achieve self-sufficiency and therefore not require additional support.

It is obvious therefore that longer term support does not add additional expenditures, it represents a low cost element of maintaining the employment generation and community adjustment/development investment of EIC in Community Futures. The freed-up funds allow for more appropriate responses to community strategic plans, investment fund increases and specialty initiatives.

B. Short Term Support

1. The major cost associated with the short term funding change will be the revision of the contribution level from $635,000 to $750,000 over five years. The cost is estimated by the variance between the average annual cost of Business Development Centre contribution support ($146,000) and current maxima for year four ($110,000) and year five ($75,000). The variances are then applied to the fiscal year rate at which Business Development Centres enter years four and five.

Rate at which Business Development Centres reach years 4 and 5 and the cost of the increased contribution proposal ($635,000 to $750,000)

	Year 4		Year 5		Total
Fiscal Year	# of BDCs	$ M	# of BDCs	$ M	$ M
1989-90	10	.360	7	.497	0.857
1990-91	85	3.060	10	.710	3.770
1991-92	54	1.944	85	6.035	7.979
1992-93	81	2.916	54	3.834	6.750
1993-94	-	-	81	5.254	5.750

2. The northern travel cost allowance will apply to 17 Business Development Centres. One hundred thousand dollars over five years will average out to a total cost per year of $0.340 million.

3. The proposed delivery assistance is expected to average out at $20,000 per region and $50,000 nationally for an anticipated annual average of $0.250 million.

Summary of Short Term Recommendation Costs

	Fiscal Year					
	1989-90 $m	1990-91 $m	1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m
Contribution Level Increase	.857	3.770	7.979	6.750	5.750	Ø
Northern Travel	.340	.340	.340	.340	.340	.340
Delivery assistance	.250	.250	.250	.250	.250	.250
Total	1.447	4.360	8.569	7.340	6.340	.590

C. Summary

The cost of the proposed recommendations by fiscal year are displayed in summary form below.

Total Estimated costs of maintaining BDCs with recommended changes included

	BDC Maintenance Current Structure $m	Long Term Support $m	Short Term Recommendations $m	Total Cost $m
1989-90	93.8	Ø	1.447	95.247
1990-91	89.4	0.5	4.360	94.260
1991-92	81.4	1.9	8.569	91.869
1992-93	51.7	8.8	7.340	67.140
1993-94	27.8	13.2	6.340	47.341
1994-95	Ø	18.5	0.590	19.090

The fiscal year 1989-90 requirements represent a net cost increase. Based on the model however, the fiscal year 1990-91 (and thereafter) costs are more than offset by the number of Business Development Centres entering the second generation support structure and thus requiring reduced financial support.

VIII Conclusion

The policy changes recommended and the consequential changes in authorities and costing are recommended for approval. Responses to short term recommendations are required for fiscal year 1989-90 as at least 17 Business Development Centres which commenced their Community Futures existence from LEAD Corporation status will commence their fourth or fifth year and will be significantly and adversely affected by the current contribution support structure this year. Ninety-five centres will be similarly affected in fiscal year 1990-91.

Seven (7) Business Development Centres complete their five-year support term in fiscal year 1989-90, and discussions are required to ensure that the long term investment by EIC and the benefits of the productive Centres is not lost.

The Steering Committee for the review respectfully requests consideration and approval of the recommendations presented in this report.